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NEW ISSUE

\$10,000,000

Silverwood Dairies, Limited

(Incorporated under the laws of the Province of Ontario)

6 $\frac{5}{8}$ % Sinking Fund Debentures Series A

To be dated July 5, 1966

To mature July 5, 1986

Principal and half-yearly interest (January 5 and July 5) and redemption premium, if any, payable in lawful money of Canada at the holder's option at any branch in Canada of the Company's bankers to be specified in these Debentures. The 6 $\frac{5}{8}$ % Sinking Fund Debentures Series A (hereinafter sometimes referred to as the "Series A Debentures") are to be issued as coupon Debentures registrable as to principal only in denominations of \$500 and \$1,000 and as fully registered Debentures in denominations of \$1,000 and authorized multiples thereof.

Subject to the restriction on refunding hereinafter referred to, the Series A Debentures are to be redeemable at the option of the Company, otherwise than out of sinking fund moneys, at any time in whole or from time to time in part on not less than thirty days' notice at the principal amount thereof plus a premium of 6 $\frac{5}{8}$ % of such principal amount if redeemed on or before July 5, 1967, such premium thereafter decreasing by .35 of 1% of such principal amount for each year commenced or elapsed after July 5, 1967 to the date specified for redemption up to and including July 5, 1985, and thereafter and prior to maturity at the principal amount thereof, together in each case with accrued interest to the date specified for redemption.

The Company will covenant not to redeem the Series A Debentures (otherwise than out of sinking fund moneys) in whole or in part prior to July 5, 1978 as part of a refunding operation involving the application, directly or indirectly, of borrowed funds having an interest rate or net interest cost to the Company (as calculated by the Trustee in accordance with generally accepted financial practice) of less than 6 $\frac{5}{8}$ % per annum.

Sinking Fund

The Company will covenant in the Trust Indenture to establish a mandatory sinking fund for the retirement of the Series A Debentures by paying to the Trustee, so long as any Series A Debentures are outstanding, a sum sufficient to provide for the retirement of \$400,000 principal amount of Series A Debentures on July 5 in each of the years 1968 to 1985 inclusive. Such sinking fund payments will provide for the retirement of 72% of the Series A Debentures prior to maturity.

The Series A Debentures are to be redeemable out of sinking fund moneys at the principal amount thereof plus accrued interest to the date specified for redemption.

The Company will be entitled to purchase Series A Debentures in the market or by tender or by private contract at any price not exceeding the redemption price (including accrued interest) at which such Debentures, at the date of purchase, are redeemable otherwise than out of sinking fund moneys, plus costs of purchase. All Series A Debentures purchased or redeemed by the Company (except Series A Debentures purchased or redeemed out of sinking fund moneys or redeemed pursuant to the provisions of the Trust Indenture described in clause G on page 5 hereof) shall, notwithstanding the cancellation thereof, be available to the Company as a sinking fund credit which, at the election of the Company, may be applied (to the extent not theretofore applied) in satisfaction in whole or in part of mandatory sinking fund payments payable thereafter.

Trustee: The Canada Trust Company

In the opinion of Counsel, these Series A Debentures will be an investment in which the Canadian and British Insurance Companies Act (Canada) states that a company registered under Part III thereof may invest its funds, without resorting to the provisions of subsection (4) of Section 63 of the said Act.

We, as principals, offer the Series A Debentures subject to prior sale and change in price, if, as and when issued and accepted by us and subject to the approval of all legal matters on behalf of the Company by Messrs. Ivey & Dowler, London, Ontario, and on our behalf by Messrs. Fraser, Beatty, Tucker, McIntosh & Stewart, Toronto, Ontario.

Price: 100 and accrued interest to yield 6.625%

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice.

It is expected that the Series A Debentures in interim or definitive form will be ready for delivery on or about July 5, 1966.

**McLEOD, YOUNG, WEIR & COMPANY
LIMITED**

TORONTO	MONTREAL	OTTAWA	WINNIPEG	LONDON	VANCOUVER	HAMILTON	CALGARY
KITCHENER	QUEBEC	SHERBROOKE	WINDSOR	EDMONTON	REGINA	VICTORIA	NEW YORK

The following information has been supplied by officers of Silverwood Dairies, Limited.

The Company

Silverwood Dairies, Limited (herein sometimes referred to as the "Company") together with the recently acquired subsidiary, United Dairies Limited and its subsidiaries, is the largest Canadian-owned dairy organization in Canada, over 99% of the outstanding shares in the capital of the Company being owned by Canadians according to the Company's records. The Company's business was originally established in 1903 in London, Ontario, as a small branch of a produce firm and was subsequently broadened out to include dairy products, through the manufacture and sale of butter first and then of ice cream and in 1922 the bottling and home delivery of milk and cream. Since that time, through the acquisition and consolidation of over 75 local dairies (including in 1966 the acquisition of control of United Dairies Limited and the purchase of the undertaking, property and assets, subject to certain exceptions, of Findlay Kemp Dairies Limited and Uplands Dairy Shops Limited) the business has developed to the point where the products of the Company and its subsidiaries are now distributed in most of the principal urban centres of Ontario, Manitoba, Saskatchewan, Alberta and British Columbia.

United Dairies Limited, a major dairy concern operating directly and through subsidiaries in Alberta and British Columbia, is more fully described hereunder in the section headed "United Dairies Limited".

The principal business of the Company is the processing and distribution of milk, cream, ice cream, butter, condensed and powdered milk products and other dairy products and the sale of eggs and cheese together with a line of fruit juices and other products.

Operations of the Company in Ontario and the prairie provinces are conducted through 25 plants located at Brantford, Caledonia, Chatham, Elmira, Hamilton, Kitchener, Lindsay, London, Lucknow, North Bay, Peterborough, St. Catharines, St. Thomas, Sarnia, Stratford, Sudbury, Toronto (4 plants), Windsor, Woodstock, Winnipeg, Regina and Edmonton. The Company also operates 11 depots located at Bracebridge, Brockville, Cargill, Kingsville, Leamington, Norwich, Ottawa, Sault Ste. Marie, Tilbury, Brandon and Portage La Prairie.

The Company employs approximately 2,900 persons who participate in comprehensive pension, group insurance and health benefit plans on a contributory basis. Employees also participate in a plan for the purchase of shares of Silverwood Employee Holdings Limited (as more fully described herein) which is the largest holder of the voting shares of the Company. Relations with employees have always been satisfactory which is evidenced by the high and efficient level of the Company's operations.

The steady growth in the volume of business experienced by the Company over the 15 year period ended March 31, 1966 is indicated by the following table which sets forth the combined annual sales of the Company and its subsidiaries (exclusive of United Dairies Limited and its subsidiaries).

Year Ended March 31	Total Sales	Year Ended March 31	Total Sales
1952.....	\$33,755,677	1959.....	\$42,291,091
1953.....	35,064,313	1960.....	43,141,870
1954.....	35,168,159	1961.....	43,405,231
1955.....	34,516,244	1962.....	45,642,340
1956.....	35,991,661	1963.....	48,017,229
1957.....	37,059,914	1964.....	51,914,455
1958.....	40,276,928	1965.....	53,512,422
		1966.....	57,276,934

For administrative purposes products marketed by the Company are divided into six sales groups and for the year-ended March 31, 1966 the percentage contribution of each sales group to total sales was as follows:

Milk, cottage cheese, yogurt and fruit drinks.....	67.5%
Ice cream, mixes and frozen confections.....	18.6
Butter.....	9.0
Eggs and poultry.....	2.0
Condensed and powdered milks.....	1.4
Sundry products.....	1.5
	<u>100.0%</u>

Plants and Equipment

The Company has a continuing programme of modernizing existing plants and equipment and building and equipping new plants, where necessary, to maintain its productive facilities at a high level of operating efficiency. In line with this programme the Company has recently completed the erection of new plants at Sudbury and Windsor and is completing the modernization of its plant at Kitchener at an aggregate capital cost in excess of \$1,250,000. The next phase of the programme is presently expected to include the modernization or replacement of plants at Brantford, Peterborough and Stratford. In addition, the Company has a new ice cream plant under construction on a 28-acre site near the Macdonald-Cartier Freeway and Wellington Road in London, Ontario. This new plant, which is of an advanced design, is being constructed in three stages and will gradually replace the Company's ice cream manufacturing facilities in London which have been outgrown and have become less efficient. The cost of the first stage of the new plant is estimated at \$1,500,000 and it is expected that initial production will commence in August, 1966.

The Company owns a fleet of approximately 1,525 commercial vehicles required in the sale and the distribution of its products. In the main these vehicles are serviced at the various plants out of which they operate.

According to the subjoined pro forma consolidated balance sheet of the Company and its subsidiary companies (including United Dairies Limited and its subsidiaries) as at March 31, 1966 the net book value of fixed assets was \$17,221,946 after deducting provision for depreciation of \$18,696,750.

United Dairies Limited

Control of United Dairies Limited (hereinafter sometimes referred to as "United") was acquired by the Company in January, 1966. The Company now owns over 99% of the outstanding common shares of United. United's business began in Calgary in 1909 and United and its subsidiaries now operate plants and depots throughout the southern populous regions of Alberta and British Columbia from which they process, manufacture and market a full range of dairy products, including milk, cream, ice cream, butter and cottage cheese, and sell eggs, a line of fruit juices and other products.

In Alberta, plants of United and its subsidiaries are located at Calgary, Fort MacLeod, Lethbridge, Medicine Hat and Red Deer, and in British Columbia at Golden, Vancouver and Victoria. Depots are located at Banff and Canmore, Alberta, and at Cranbrook, British Columbia. A fleet of approximately 400 commercial vehicles is owned and operated by United and its subsidiaries for the marketing of their various product lines.

United and its subsidiaries employ approximately 800 persons in the organization. Good employer-employee relations are maintained and employees participate in contributory pension, group insurance and medical and hospitalization plans.

Silverwood Employee Holdings Limited

Silverwood Employee Holdings Limited (hereinafter sometimes referred to as "Employee Holdings") is a holding company created for the benefit of Silverwood employees and owns approximately 184,000 Class "B" shares of the Company. Employees of the Company are entitled to purchase one convertible second preference share of Employee Holdings at \$1.00 per share for every 5 years of service with the Company and dividends at the rate of \$5.00 per share per annum are currently being paid on these shares. When an employee either retires under the Company's pension plan or dies or leaves the employ of the Company after 25 years of meritorious service, such employee, or his estate, is entitled to convert such convertible second preference shares into retirement third preference shares on a share for share basis. In turn, the retirement third preference shares are immediately redeemed at a price related to the then current market value of the Class "B" shares of the Company.

Purpose of Issue

The net proceeds from the sale of the \$10,000,000 principal amount of 6 $\frac{5}{8}$ % Sinking Fund Debentures Series A will be used (either directly or by the reduction of indebtedness) to reimburse the Company for expenditures to be made for the payment of the balance of the purchase price estimated at \$1,064,816 of the undertaking, property and assets (subject to certain exceptions) of Findlay Kemp Dairies Limited and Uplands Dairy Shops Limited, to reimburse the Company for moneys expended to the extent required for the redemption on July 5, 1966 of the Company's Convertible Debentures (of which \$398,000 principal amount were outstanding at March 31, 1966 so that \$414,588 would be required for the redemption on July 5, 1966 of that principal amount plus premium and accrued interest) which are not converted into Class "A" shares of the Company prior to such redemption date, to provide funds for the redemption in July 1966 of the Company's presently outstanding 4% General Mortgage Bonds (of which \$639,500 principal amount were outstanding at March 31, 1966), to finance the cost to complete (estimated at March 31, 1966 to be \$1,063,000) the new ice cream facilities at London, Ontario referred to under the heading "Plants and Equipment" on page 2 of this prospectus and to replenish the working capital of the Company and its subsidiaries and to augment the working capital of the Company and its subsidiaries particularly having regard to their expanded operations.

Capitalization

As at June 10, 1966, after giving effect to the present financing, including the redemption of the Company's presently outstanding 5 $\frac{1}{4}$ % Convertible Sinking Fund Debentures which have been called for redemption on July 5, 1966 and the redemption of the Company's presently outstanding 4% General Mortgage Bonds, the capitalization of the Company will be as follows:

	Authorized	To be Outstanding
Debentures:	(1)	
6 $\frac{5}{8}$ % Sinking Fund Debentures Series A due July 5, 1986..		\$10,000,000
Class "A" shares without par value.....	1,000,000 shs	878,547 shs (2) (3)
Class "B" shares without par value.....	500,000 shs	441,212 shs

NOTES: (1) There will be no fixed limitation on the aggregate principal amount of Debentures that may be issued but additional Debentures may only be issued subject to the restrictions to be contained in the Trust Indenture under which such Debentures are to be issued to which reference is made in the section hereunder headed "Certain Provisions of the Trust Indenture".

(2) If all the Company's 5 $\frac{1}{4}$ % Convertible Sinking Fund Debentures outstanding on June 10, 1966 are converted into Class "A" Shares of the Company at the conversion price of \$12.00 per share an additional 33,083 Class "A" shares (excluding Class "A" shares required to satisfy fractional interests) will be issued; at the present time the conversion rate is significantly in favour of the holders of the 5 $\frac{1}{4}$ % Convertible Sinking Fund Debentures and the Company anticipates that all or nearly all of the said Debentures will be converted in accordance with their terms.

(3) A maximum of 231 Class "A" shares may be issued pursuant to an offer to holders of shares of United referred to in paragraph 12 of the Statutory Information forming part of this prospectus.

Earnings

A statement of the combined earnings of Silverwood Dairies, Limited and its subsidiary companies (which subsidiary companies were non-operating) and United Dairies Limited and its subsidiary companies for the ten years ended March 31, 1966, as reported upon by the Company's auditors, Messrs. Clarkson, Gordon & Co., Chartered Accountants, is set forth on page 9 of this prospectus.

Based on such statement, the balance of combined earnings after interest on long term debt and taxes on income of United Dairies Limited and its subsidiaries but before interest on bonds and debentures and taxes on income of Silverwood Dairies, Limited has averaged \$3,100,586 per annum for the ten years ended March 31, 1966 and was \$3,336,882 for the year ended March 31, 1966. These amounts are equivalent respectively to approximately 4.68 and 5.04 times the maximum annual interest requirements totalling \$662,500 on the \$10,000,000 principal amount of 6½% Sinking Fund Debentures Series A of the Company to be outstanding upon completion of the present financing.

Assets

According to the accompanying pro forma consolidated balance sheet of Silverwood Dairies, Limited and its subsidiary companies (including United Dairies Limited and its subsidiaries) as at March 31, 1966 (which gives effect to the transactions set forth in the heading thereto), as reported upon by the Company's auditors, Messrs. Clarkson, Gordon & Co., Chartered Accountants, consolidated net tangible assets were as follows:

Current assets.....	\$17,869,239	
Less: Current liabilities.....	7,816,344	
		\$10,052,895
Fixed assets—at cost.....	\$35,918,696	
Less: Accumulated depreciation.....	18,696,750	
	17,221,946	
Amount to be deposited with the Trustee for the 6½% Sinking Fund Debentures Series A to finance estimated cost to complete new ice cream facilities	1,063,000	
		18,284,946
		28,337,841
Less: Mortgages, notes and deferred accounts payable.....	\$ 1,913,296	
Accumulated tax reductions applicable to future years.....	1,849,958	
Minority interest in subsidiary companies.....	318,941	4,082,195
Consolidated net tangible assets.....		<u>\$24,255,646</u>

On the basis of the foregoing such consolidated net tangible assets are equivalent to \$2,425 for each \$1,000 principal amount of Series A Debentures of the Company to be outstanding upon completion of the present financing.

Certain Provisions of the Trust Indenture

The \$10,000,000 aggregate principal amount of 6½% Sinking Fund Debentures Series A (herein sometimes called the "Series A Debentures") now proposed to be issued are to be direct obligations of the Company, are to be issued under and secured by a trust indenture (herein called the "Trust Indenture") to be dated as of June 15, 1966 and to be entered into between the Company and The Canada Trust Company, as Trustee, and are, in the opinion of counsel, to be secured by a first floating charge under the laws of the Provinces of Ontario, Manitoba, Saskatchewan and Alberta upon the undertaking and all the property and assets of the Company in such provinces now owned or hereafter acquired but subject to an exception as to the last day of the term of any lease or agreement therefor. Substantially all the assets of the Company are presently situate in such provinces. The Trust Indenture will not require registration of the floating charge against Short Term Leasehold Properties (as to be defined in the Trust Indenture) and the consent to the said floating charge by the various lessors and mortgagees of such properties will not be obtained. Accordingly the said floating charge, in so far as it relates to such properties, will be subject to any interests hereafter acquired by third parties in respect of such properties which, by reason of non-registration, may rank prior to such floating charge and to the rights, if any, of such lessors and mortgagees.

The Trust Indenture is to contain provisions permitting the issuance (subject as hereinafter provided) from time to time of additional Debentures (herein called "Additional Debentures") thereunder without limitation as to aggregate principal amount, which Additional Debentures will rank equally and rateably with the Series A Debentures save only as to sinking fund provisions applicable to different issues. The principal, premium, if any, and interest of and on such Additional Debentures may be payable in such currency or currencies as may be determined by the Company at the time of the issue thereof.

The Company is to covenant in the Trust Indenture that so long as any of the Series A Debentures are outstanding:

- A. Neither the Company nor any Subsidiary will mortgage, hypothecate, charge, pledge or otherwise encumber any of its assets to secure any moneys, debts, liabilities, bonds, debentures, notes or other obligations other than the Debentures issued under the Trust Indenture (hereinafter called the "Debentures") unless at the same time it shall secure equally and rateably with such moneys, debts, liabilities, bonds, debentures, notes or other obligations all the Debentures then outstanding.
- B. The Company will not sell or otherwise dispose of any Funded Obligations or shares of any Subsidiary nor will the Company permit any Subsidiary to issue, sell or otherwise dispose of or to become liable on (except to the Company or to a Subsidiary of which such Subsidiary is a Subsidiary) any Funded Obligation or shares of such Subsidiary or of any other Subsidiary; provided, however, that all shares of all classes of any Subsidiary (hereinafter called the "Sold Subsidiary") owned by the Company and its Subsidiaries, together with all Funded Obligations and other securities and obligations issued by the Sold Subsidiary owned by the Company and its Subsidiaries, may be sold as an entirety for their fair value in cash if at the time of such sale the Sold Subsidiary does not own any shares, Funded Obligations, other securities or obligations of any Subsidiary all shares of which owned by the Company and its Subsidiaries are not being simultaneously disposed of, but subject always to the provisions of clause G hereunder.
- C. The Company will not issue any Additional Debentures under the Trust Indenture or issue or become liable on any other Funded Obligations unless
 - (a) the Consolidated Net Tangible Assets of the Company and its Subsidiaries shall be equal to at least twice the principal amount of all Consolidated Funded Obligations of the Company and its Subsidiaries to be outstanding immediately after such issue or immediately after the Company so becoming liable, as the case may be; and

- (b) the average annual Consolidated Net Earnings of the Company and its Subsidiaries for the last three immediately completed fiscal years next preceding such issue or next preceding the Company so becoming liable, as the case may be, shall have been at least equal to four times the aggregate annual interest requirements of all Consolidated Funded Obligations of the Company and its Subsidiaries to be outstanding immediately after such issue or immediately after the Company so becoming liable, as the case may be; and
- (c) the Consolidated Net Current Assets of the Company and its Subsidiaries shall be equal to at least (i) 25% of the principal amount of all Consolidated Funded Obligations of the Company and its Subsidiaries to be outstanding immediately after such issue or immediately after the Company so becoming liable, as the case may be, or (ii) \$2,500,000, whichever is the greater.

Provided that, for all purposes of the Trust Indenture, any Funded Obligations outstanding at the time of any such issue or of the Company so becoming liable, as the case may be, which are to be retired within one week following such time and all moneys required to retire which Funded Obligations are paid to the Trustee at such time or the payment of which moneys is provided for to the satisfaction of the Trustee at such time shall be deemed not to be outstanding immediately after such issue or immediately after the Company so becoming liable, as the case may be.

D. No Additional Debentures or Funded Obligations of the Company will be issued under the Trust Indenture or otherwise having a maturity date prior to July 6, 1986 other than Debentures or Funded Obligations maturing serially.

E. The aggregate amount payable by way of serial maturities and/or mandatory sinking fund payments (which in the case of a sinking fund payment to retire a specified principal amount shall for the purposes of this clause E be deemed to be the principal amount to so be retired) in any year in respect of the Debentures or Funded Obligations of any issue of the Company shall not be proportionately greater to the aggregate principal amount issued of the Debentures or Funded Obligations of such issue than the proportion which the mandatory sinking fund payment for the Series A Debentures in such year bears to the aggregate principal amount of the Series A Debentures originally issued under the Trust Indenture, unless the annual sinking fund payments in respect of the Series A Debentures are increased accordingly, provided that the provisions of this clause E and of clause D shall not apply to the issue by the Company at any time or from time to time of Debentures or Funded Obligations issued under the Trust Indenture or otherwise if not more than \$1,500,000 principal amount of such Debentures and/or Funded Obligations issued under the provisions of this proviso are outstanding at any one time.

F. The Company will not

- (i) declare or pay any dividends (other than in shares of the Company and other than dividends at the rate of sixty cents per share per annum on the outstanding Class "A" shares without par value of the Company) on any of its shares at any time outstanding; or
- (ii) redeem, reduce, purchase or otherwise pay off any of its shares at any time outstanding (except out of the proceeds of an issue of shares made at any time after June 15, 1966 and prior to or contemporaneously with any such redemption, reduction, purchase or payment)

unless immediately after giving effect to such action

- (i) the Consolidated Net Current Assets of the Company and its Subsidiaries shall be equal to at least (a) 25% of the principal amount of all Consolidated Funded Obligations of the Company and its Subsidiaries then outstanding, or (b) \$2,500,000, whichever is the greater; and
- (ii) the Consolidated Earned Surplus of the Company and its Subsidiaries will be not less than (a) \$7,500,000, or (b) 75% of the principal amount of all Consolidated Funded Obligations of the Company and its Subsidiaries, whichever is the lesser;

provided that this covenant shall not prevent the Company from paying cumulative dividends on or satisfying mandatory retirement provisions of any preference shares of the Company hereafter issued otherwise than by way of stock dividends.

G. The aggregate net proceeds in excess of \$500,000 per annum received by the Company and its Subsidiaries during any fiscal period of the Company from any sale or other disposition of fixed assets or of shares, Funded Obligations, other securities and obligations of a Sold Subsidiary are to be deposited with the Trustee not later than 12 months after the end of such fiscal period of the Company to be used within 3 months thereafter in purchasing or redeeming Debentures; provided, however, that for the purposes of determining the obligation of the Company hereunder there may be deducted from such excess the aggregate costs of additional fixed assets or of shares in any other company carrying on a business capable of being conducted so as to benefit the Company or any of its Subsidiaries, in each case, acquired or contracted for by the Company and/or a Subsidiary between the commencement of such fiscal period and the date of such required deposit, if such costs have not been taken into account in determining the obligation of the Company and its Subsidiaries hereunder in respect of any previous fiscal period; and provided further, that the obligation of the Company hereunder shall be in addition to the Company's sinking fund obligations, that any such redemption shall be deemed to be a redemption at the option of the Company and not out of sinking fund moneys and that any Debentures so purchased or redeemed are not to constitute a sinking fund credit.

The foregoing clauses A to G inclusive and the said floating charge shall not apply to nor operate to prevent

- (i) the assuming or giving of Purchase Money Mortgages on property acquired by the Company or by any Subsidiary after June 15, 1966; or
- (ii) the acquiring by the Company or any Subsidiary of property subject to any mortgage, lien, charge or encumbrance thereon at the time of such acquisition; or
- (iii) the extension, renewal or refunding of any mortgage, lien, charge or encumbrance permitted under subdivisions (i) or (ii) hereof or any mortgage, lien, charge or encumbrance existing on June 15, 1966 to the

extent of the principal amount of the indebtedness secured by and owing under any such mortgage, lien, charge or encumbrance at the time of such extension, renewal or refunding; or

- (iv) the giving of security or the issuance or disposal of Funded Obligations by a Subsidiary to secure the Debentures; or
- (v) the extension, renewal or refunding, by an issue of Funded Obligations complying with the provisions of the foregoing clauses D and E, by the Company of any Funded Obligations of the Company to the extent of the principal amount of such last-mentioned Funded Obligations at the time of such extension, renewal or refunding or the extension, renewal or refunding by a Subsidiary of any Funded Obligations of such Subsidiary to the extent of the principal amount of such Funded Obligations at the time of such extension, renewal or refunding; or
- (vi) the securing of any Funded Obligations issued as permitted under subdivision (v) hereof in the same manner as the Funded Obligations extended, renewed or refunded were secured at the time of such extension, renewal or refunding; or
- (vii) the giving of security or securities (except on shares of Subsidiaries or fixed assets) by the Company or any Subsidiary to any bank or banks or to any other loaning institution for present or future debts or liabilities of the Company or such Subsidiary to such bank or banks or loaning institution provided that such debts or liabilities do not constitute Funded Obligations.

Nothing contained in the Trust Indenture is to apply to or prevent (a) the deposit of cash or obligations of the Government of Canada in connection with contracts or tenders in the ordinary course of business or to secure workmen's compensation, surety or appeal bonds, costs of litigation when required by law and public and statutory obligations; or (b) liens or claims incident to current construction, mechanics', warehousemen's, carriers' and other similar liens; or (c) the incurring of obligations under forward commitments of purchase relating to current operations or under any lease entered into in the ordinary course of business or any guarantee of such obligations given in the ordinary course of business.

The Trust Indenture will provide that the directors may from time to time determine Consolidated Net Current Assets and/or Consolidated Net Tangible Assets and/or Consolidated Earned Surplus of the Company and its Subsidiaries as of a date not more than 120 days prior to the making of such determination and may determine such Consolidated Net Current Assets and/or Consolidated Net Tangible Assets and/or Consolidated Earned Surplus to be not less than a stated amount or respective stated amounts without determining the exact amount or amounts thereof. There may be included in any such determination of Consolidated Net Current Assets and/or Consolidated Net Tangible Assets of the Company and its Subsidiaries (if any) as Current Assets and/or Tangible Assets the net proceeds or estimated net proceeds of the sale of any shares, bonds, debentures and/or other obligations of the Company (except as otherwise provided and except to the extent that such net proceeds or estimated net proceeds have been or are to be applied within one year thereafter to the redemption, reduction, purchase or paying off of any shares of the Company and except to the extent that such net proceeds or estimated net proceeds have been or are to be applied within one year thereafter to the acquisition of assets other than Current Assets and/or other than Tangible Assets, as the case may be, as to which a resolution of the directors setting out the application or proposed application of any such net proceeds or estimated net proceeds shall be conclusive and binding) issued and/or agreed to be issued (prior to the making of such determination) for cash notwithstanding that such shares, bonds, debentures and/or other obligations may have been issued and/or agreed to be issued subsequent to the date as of which the determination is made.

The Trust Indenture will provide that if any property or any shares of any other company (sufficient with any other shares of such other company already owned by the Company or a Subsidiary to result in such other company becoming a Subsidiary) have been acquired or are in process of being acquired or are proposed to be acquired by the Company or any Subsidiary at the time of determining Consolidated Net Current Assets and/or Consolidated Net Earnings and/or Consolidated Net Tangible Assets and/or Consolidated Funded Obligations and/or Consolidated Earned Surplus of the Company and its Subsidiaries and if the net proceeds of any issue of Funded Obligations or shares of the Company have been or are to be applied directly or indirectly towards the cost of or in reimbursement of the cost of the acquisition of such property or shares, as to all of which a resolution of the directors shall be conclusive and binding, then (i) the Tangible Assets and/or Current Assets of or comprised in such property or such other company (provided that the net proceeds or estimated net proceeds of the sale of such proposed issue of Funded Obligations or shares are not included in such determination of Consolidated Net Current Assets and/or Consolidated Net Tangible Assets as Tangible Assets and/or Current Assets), the Liabilities and/or Current Liabilities of or pertaining to such property or such other company and the Funded Obligations of or attached to such property or such other company (calculated in accordance with the provisions of the Trust Indenture respecting Consolidated Net Current Assets, Consolidated Net Tangible Assets and Consolidated Funded Obligations) shall be treated as Tangible Assets and/or Current Assets and/or Liabilities and/or Current Liabilities and/or Funded Obligations, as the case may be, in the computation of Consolidated Net Current Assets and/or Consolidated Net Tangible Assets and/or Consolidated Funded Obligations and (ii) the net earnings or net losses of such property or such other company (calculated in accordance with the provisions of the Trust Indenture respecting Consolidated Net Earnings) for the whole of the period for which Consolidated Net Earnings are to be computed shall, if in the opinion of the Company's auditors the Company has access to data sufficient to enable such auditors to determine such net earnings or net losses, be treated as net earnings or net losses, as the case may be, in the computation of Consolidated Net Earnings and/or Consolidated Earned Surplus.

The Trust Indenture will contain definitions of the following terms substantially to the following effect:

"Consolidated Net Current Assets" of the Company and its Subsidiaries means the surplus of Current Assets over Current Liabilities of the Company and all its Subsidiaries arrived at on a consolidated basis in accordance with generally accepted accounting practice; provided always that in calculating Consolidated Net Current Assets due allowance shall be made for the minority interest (if any) in any Subsidiary;

"Current Assets" means accounts receivable, bills and notes receivable and similar items receivable in the ordinary course of business (less reasonable reserves for bad and doubtful debts), cash on hand and in banks, bonds and obligations of or guaranteed by the Government of Canada or any province thereof and other investments (which term shall include bonds, debentures, debenture stock, shares and obligations of incorporated companies other than Funded Obligations issued by the Company or any Subsidiary) which are readily saleable and which in accordance with generally accepted accounting practice may properly be grouped as

Current Assets taken at their quoted market value, prepaid interest, insurance, municipal taxes and similar prepaid expenses of a current nature, stock-in-trade including all manufactured products of the Company and its Subsidiaries and materials and supplies (including containers) necessary for the operation of the plants and/or the manufacture of the products of the Company and its Subsidiaries, such stock-in-trade, materials and supplies to be valued at the lower of cost and market value, cash surrender value of life insurance policies payable to the Company or its Subsidiaries and such other assets as are usually regarded as current in accordance with generally accepted accounting practice by companies conducting a business similar to that of the Company and/or of its Subsidiaries;

"Current Liabilities" means accounts payable, proper reserves for taxes of all kinds, bank loans and overdrafts, accrued interest and other liabilities required to be treated as current in accordance with generally accepted accounting practice; provided that (i) no liabilities under forward commitments of purchase related to the current operations of the Company and/or its Subsidiaries and (ii) no principal, premium (if any) or sinking fund instalments (if any) in respect of any Funded Obligations which may be owing, issued or guaranteed by the Company and/or its Subsidiaries shall be taken into account in determining Current Liabilities;

"Consolidated Net Earnings" of the Company and its Subsidiaries means all the gross earnings and income of the Company and its Subsidiaries from all sources, less all administrative, selling and operating charges and expenses of every character and all fixed charges of the Company and its Subsidiaries other than interest on Funded Obligations (but excluding gains or losses on the disposal of investments and fixed assets) arrived at on a consolidated basis in accordance with generally accepted accounting practice. Without limitation of the generality of the foregoing, operating charges and expenses shall include insurance, maintenance, repairs, renewals (except such expenditures for renewals as are chargeable to capital account in accordance with generally accepted accounting practice), rentals, licences, taxes (other than taxes on income) and interest (other than interest on Funded Obligations) and such reserves for bad and doubtful debts as the directors in their discretion, with the approval of the Company's auditors, may determine and, in addition to actual expenditures for maintenance, reasonable allowance for depreciation. In determining Consolidated Net Earnings interest charges which will be eliminated or reduced by reason of the issuance of Funded Obligations shall be disregarded or adjusted, as the case may be. The earnings or losses of any Subsidiary which is a Subsidiary at the time of determining Consolidated Net Earnings shall be included for the whole of the period or periods in question regardless of when it became a Subsidiary, provided that the net earnings of any Subsidiary for the purpose of this definition shall only include such part of the net earnings and income of such Subsidiary calculated as aforesaid as under generally accepted accounting practice is applicable to those shares of such Subsidiary which are held by the Company or any other Subsidiary;

"Consolidated Net Tangible Assets" of the Company and its Subsidiaries means the excess of the total of the Tangible Assets over all Liabilities of the Company and all its Subsidiaries arrived at on a consolidated basis in accordance with generally accepted accounting practice; provided always that in calculating Consolidated Net Tangible Assets due allowance shall be made for the minority interest (if any) in any Subsidiary;

"Tangible Assets" means lands, buildings, plant, equipment and all other physical assets and all Current Assets and all investments (including notes, mortgages, advances and other amounts receivable which are not Current Assets) and all other assets which in accordance with generally accepted accounting practice may properly be grouped as Tangible Assets. The values of such assets shall be determined in the case of lands, buildings, plant, equipment and other physical assets owned on March 31, 1966 by the Company and/or any company which was a Subsidiary on March 31, 1966 by the values shown in the audited consolidated balance sheet of the Company and its Subsidiaries as at March 31, 1966 (less the accumulated depreciation shown in such consolidated balance sheet and less subsequent depreciation, depletion and amortization) and in the case of any lands, buildings, plant, equipment and other physical assets acquired after March 31, 1966 by the Company and/or any such Subsidiary at the cost thereof less subsequent depreciation, depletion and amortization. In the case of any company (hereinafter called an "Acquired Company") which becomes a Subsidiary after March 31, 1966 the value of its Tangible Assets (other than Current Assets and investments) shall, in the case of the first determination of the value thereof, be, at the option of the Company, either (i) the aggregate value thereof as determined by an appraiser appointed by the Directors and approved by the Trustee; or (ii) the cost (at the time such Acquired Company became a Subsidiary) to the Company or any Subsidiary of which the Acquired Company is a Subsidiary of its investment (through the ownership of shares or otherwise) in such Acquired Company applicable to all such assets which were owned by such Acquired Company at such time (as to which cost and the allocation of such cost among all such assets a resolution of the Directors of the Company shall be conclusive and binding) plus the cost of any such assets acquired after such time, less in each case subsequent depreciation, depletion and amortization. After the first determination of the value of Tangible Assets of an Acquired Company, the value of Tangible Assets of such Acquired Company (other than Current Assets and investments) shall be the value thereof determined in accordance with the preceding clause hereof beginning with the words "In the case of any company" less subsequent depreciation, depletion and amortization and in the case of any Tangible Assets (except as aforesaid) acquired by such Acquired Company after such appraisal or after the allocation of cost as aforesaid as the case may be the cost thereof less subsequent depreciation, depletion and amortization. Investments (other than investments which are included in Current Assets as hereinbefore provided) shall be valued at not more than the cost thereof to the Company or the Subsidiary concerned, such cost to be determined in accordance with generally accepted accounting practice;

"Liabilities" means Current Liabilities and all other liabilities (including provision for deferred taxes) of the Company and its Subsidiaries other than liability for capital stock, surplus or reserves (to the extent not required to be treated as liabilities in accordance with generally accepted accounting practice) and other than liabilities in respect of the principal, premium (if any) and sinking fund instalments (if any) in respect of any Funded Obligations. Contingent liabilities shall likewise be excluded except to such extent (if any) as the directors in their discretion shall determine that special provision should be made in the accounts for meeting such contingent liabilities;

"Funded Obligations" means any indebtedness the principal amount of which by its terms is not payable on demand and matures by its terms on, or is renewable at the option of the obligor to, a date more than twelve (12) months after the date of the creation or issuance thereof and any liability (contingent or otherwise) in respect of (i) any guarantee by the Company of any such indebtedness of any person, firm or corporation other than a Subsidiary and (ii) any guarantee by a Subsidiary of any such indebtedness of any person, firm or corporation other than the Company;

"Consolidated Funded Obligations" of the Company and its Subsidiaries means the aggregate amount of all Funded Obligations of the Company and all its Subsidiaries arrived at on a consolidated basis in accordance with generally accepted accounting practice;

"Purchase Money Mortgage" means any mortgage, hypothec, vendor's privilege, lien, charge or other encumbrance on any property, real or personal, moveable or immoveable, purchased by the Company or a Subsidiary which is confined to the property so purchased and which was existing at the time of purchase or which was taken back or retained by the vendor of the property at the time of purchase and in any case the principal amount of which upon such purchase does not exceed $66\frac{2}{3}\%$ of the lesser of the cost and fair market value of the property so purchased at the time of purchase;

"Consolidated Earned Surplus" of the Company and its Subsidiaries means the aggregate of the sum of \$10,275,904 and the Consolidated Net Earnings of the Company and its Subsidiaries calculated as above provided since March 31, 1966 less taxes on income, interest on Funded Obligations, all dividends declared and/or paid subsequent to March 31, 1966 (other than in shares of the Company) on all shares of all classes of the Company, all premiums paid on redemption of shares of the Company after March 31, 1966 and all other items which, in accordance with generally accepted accounting practice, are properly chargeable to earned surplus and declared, paid or arising after March 31, 1966; in calculating Consolidated Earned Surplus earnings or losses of any Subsidiary shall only be included from the date when such Subsidiary became a Subsidiary of the Company and due allowance shall be made for the minority interest, if any, in any Subsidiary;

"Subsidiary" means any corporation or company of which more than fifty per cent (50%) of the outstanding shares carrying voting rights at all times (provided that the ownership of such shares confers the right at all times to elect at least a majority of the board of directors of such corporation or company) are for the time being owned by or held for the Company and/or any other corporation or company in like relation to the Company and includes any corporation or company in like relation to a Subsidiary;

"Short Term Leasehold Properties" means any property leased to the Company by a lease the term of which is ten years or less, excluding any right of renewal.

Sinking Fund

Under the Trust Indenture the Company will covenant to establish a sinking fund to provide for the retirement of \$400,000 principal amount of Series A Debentures on July 5 in each of the years 1968 to 1985 inclusive.

The Company is to be entitled to purchase Series A Debentures in the market or by tender or by private contract at prices not exceeding the redemption price (including accrued interest) current at the time of purchase in respect of Series A Debentures redeemed otherwise than out of sinking fund moneys plus costs of purchase. All Series A Debentures purchased or redeemed (except Series A Debentures purchased or redeemed out of sinking fund moneys and except Series A Debentures redeemed pursuant to the provisions of clause G appearing on page 5 hereof) shall, notwithstanding the cancellation thereof, be available to the Company as a sinking fund credit which at the election of the Company may be applied (to the extent not theretofore applied) in denominations of \$500 and multiples thereof in satisfaction in whole or in part of required sinking fund payments payable thereafter. The Company is to have the right to elect on or before May 15 in each of the years 1968 to 1985 inclusive to apply a specified principal amount of Series A Debentures forming such credit in satisfaction in whole or in part of the sinking fund payment required to be made prior to July 5 of such year and the Company will be required to pay into such sinking fund prior to July 5 of such year the sum in cash required to retire on that date \$400,000 principal amount of Series A Debentures less a principal amount of Series A Debentures equal to the principal amount of such Series A Debentures so applied. Such cash paid to the Trustee is to be applied in the retirement of Series A Debentures by call for redemption on July 5 of such year at the principal amount thereof together with accrued interest to the date specified for redemption, provided that such call need not be made if the moneys in the sinking fund and required to be paid into the sinking fund are less than \$10,000 and in such case such moneys may be used by the Trustee in purchasing for cancellation Series A Debentures at a price not exceeding the redemption price (including accrued interest) current at the time of purchase in respect of Series A Debentures redeemed otherwise than out of sinking fund moneys plus costs of purchase. The Company is to covenant and agree in the Trust Indenture to pay to the Trustee on demand its cost of giving notice of redemption of Series A Debentures out of sinking fund moneys and any other expenses in connection therewith.

The Trust Indenture will provide that Series A Debentures redeemed or purchased are to be cancelled and not reissued.

SILVERWOOD DAIRIES, LIMITED

and its subsidiary companies

Statement of Consolidated Earnings for the Ten Years Ended March 31, 1966

Year ended March 31	Consolidated earnings before depreciation, interest on bonds and debentures and taxes on income (Notes 1, 2, 4 and 6)	Depreciation (Note 3)	Consolidated earnings before interest on bonds and debentures and taxes on income	Interest on bonds and debentures	Taxes on income (Note 5)	Consolidated net earnings
1957	\$3,258,734	\$ 906,232	\$2,352,502	\$181,459	\$1,031,253	\$1,139,790
1958	3,590,401	1,024,928	2,565,473	165,319	1,067,245	1,332,909
1959	3,722,546	1,079,265	2,643,281	146,556	1,245,197	1,251,528
1960	3,980,783	1,099,093	2,881,690	134,563	1,423,966	1,323,161
1961	3,877,745	1,184,111	2,693,634	126,439	1,331,782	1,235,413
1962	4,163,136	1,181,031	2,982,105	118,231	1,455,020	1,408,854
1963	4,356,628	1,260,383	3,096,245	87,313	1,462,626	1,546,306
1964	4,816,041	1,315,577	3,500,464	75,010	1,772,299	1,653,155
1965	4,951,897	1,407,475	3,544,422	55,062	1,812,077	1,677,283
1966	4,794,038	1,563,013	3,231,025	47,680	1,645,526	1,537,819

UNITED DAIRIES LIMITED

and its subsidiary companies

Statement of Combined Earnings for the Ten Years Ended December 31, 1965 and for the Three Months Ended March 31, 1966

Year ended December 31	Combined earnings before depreciation, interest on long term debt and taxes on income (Notes 1 and 6)	Depreciation (Note 3)	Interest on long term debt	Combined earnings before taxes on income	Taxes on income (Note 5)	Combined net earnings
1956.....	\$520,414	\$227,551	\$ 7,580	\$285,283	\$123,270	\$162,013
1957.....	584,147	254,702	16,639	312,806	136,983	175,823
1958.....	698,154	235,903	14,264	447,987	194,121	253,866
1959.....	519,770	279,030	18,916	221,824	87,607	134,217
1960.....	494,958	264,715	18,123	212,120	94,939	117,181
1961.....	443,081	229,048	16,453	197,580	87,455	110,125
1962.....	346,552	270,251	17,105	59,196	21,007	38,189
1963.....	639,383	263,521	14,076	361,786	170,729	191,057
1964.....	722,745	278,070	4,334	440,341	217,570	222,771
1965.....	775,119	399,563	30,399	345,157	167,464	177,693
Three months ended March 31, 1966...	167,896	106,598	6,409	54,889	27,413	27,476

SILVERWOOD DAIRIES, LIMITED

and its subsidiary companies

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UNITED DAIRIES LIMITED

and its subsidiary companies

Statement of Combined Earnings for the Ten Years Ended March 31, 1966

Year ended March 31	Combined earnings before depreciation, interest on bonds and debentures and other long term debt and taxes on income (Notes 1, 2, 4 and 6)	Depreciation (Note 3)	Interest on long term debt of United Dairies Limited and its subsidiaries	Taxes on income of United Dairies Limited and its subsidiaries (Note 5)	Combined earnings before interest on bonds and debentures and taxes on income of Silverwood Dairies, Limited (Note 1)	Interest on bonds and debentures of Silverwood Dairies, Limited	Taxes on income of Silverwood Dairies, Limited (Note 5)	Combined net earnings
1957	\$3,795,082	\$1,140,570	\$ 9,845	\$126,698	\$2,517,969	\$181,459	\$1,031,253	\$1,305,257
1958	4,203,049	1,274,931	16,045	151,267	2,760,806	165,319	1,067,245	1,528,242
1959	4,376,105	1,325,950	15,427	167,493	2,867,235	146,556	1,245,197	1,475,482
1960	4,494,350	1,374,544	18,717	89,440	3,011,649	134,563	1,423,966	1,453,120
1961	4,359,733	1,439,909	17,706	93,068	2,809,050	126,439	1,331,782	1,350,829
1962	4,582,084	1,420,380	16,616	70,843	3,074,245	118,231	1,455,020	1,500,994
1963	4,776,389	1,528,951	16,348	58,437	3,172,653	87,313	1,462,626	1,622,714
1964	5,476,264	1,582,735	11,640	182,439	3,699,450	75,010	1,772,299	1,852,141
1965	5,687,735	1,715,919	10,850	205,044	3,755,922	55,062	1,812,077	1,888,783
1966	5,381,787	1,862,685	29,209	153,011	3,336,882	47,680	1,615,000	1,674,202

SILVERWOOD DAIRIES, LIMITED

and its subsidiary companies

and

UNITED DAIRIES LIMITED

and its subsidiary companies

Notes to the Statements of Consolidated and Combined Earnings

1. (a) The accompanying statement of consolidated earnings of Silverwood Dairies, Limited and its subsidiary companies includes the consolidated earnings of United Dairies Limited only for the period from the date of acquisition of control on January 5, 1966 to March 31, 1966. The interest of minority shareholders in the consolidated earnings of United Dairies Limited for the period January 5, 1966 to March 31, 1966 amounted to \$1,931 based on the proportion of the capital stock held by minority shareholders as at March 31, 1966 and has been excluded from the earnings shown in the statement of consolidated earnings.

Except as noted above the earnings shown in this statement are all attributable to Silverwood Dairies, Limited as United Dairies Limited was the only operating subsidiary during the ten year period.

- (b) The accompanying statement of combined earnings of United Dairies Limited and its subsidiary companies includes for the entire period the full earnings of Northwestern Creamery Limited although only 55.6% of the shares of this company were owned by a wholly owned subsidiary of United Dairies Limited until January 5, 1966, on which date the balance of the outstanding shares were acquired.

Such accompanying statement includes the earnings of Canmore Dairy Ltd. only from the date of its incorporation on November 16, 1964 and of Milum Dominion Dairy Limited only from May 31, 1965, the date of acquisition of control by United Dairies Limited. The interest of minority shareholders in the earnings of these companies and of the preferred shareholders of Jersey Farms Limited, who represent the minority interest in that company, amounted to \$5,617 for the year ended December 31, 1964, to \$4,380 for the year ended December 31, 1965 and to a loss of \$1,966 for the three months ended March 31, 1966. These amounts have been excluded from the earnings shown in this statement of combined earnings.

All of the other subsidiaries of United Dairies Limited have been wholly owned for the entire period of ten years and three months ended March 31, 1966 and their earnings are included in the statement of combined earnings for the whole of the period.

- (c) The accompanying statement of combined earnings of Silverwood Dairies, Limited and its subsidiary companies and United Dairies Limited and its subsidiary companies includes the earnings of all subsidiaries on the same basis as such earnings are included in the respective separate statements of earnings referred to in (a) and (b) above.

The fiscal year end of Silverwood Dairies, Limited was March 31 throughout the period shown. The fiscal year end of United Dairies Limited and its subsidiaries, however, was December 31, and the combined earnings of United Dairies Limited and its subsidiaries for the various years ended on December 31 have been apportioned to a March 31 year end basis for the purposes of this combined statement of earnings on the assumption that such earnings accrued on an equal monthly basis.

2. Silverwood Dairies, Limited purchased certain assets of Findlay Kemp Dairies Limited and of an affiliated company as of February 1, 1966 and took over the related businesses. Previously during the ten year period ended March 31, 1966 the company also acquired certain of the assets of Paulger's Blantyre Dairy Limited, Mason's Dairy Products Limited, Campbells Dairy Products Limited, Walnut Dairy, Lakeshore Dairy Limited and of a number of smaller businesses. The operations relating to these assets were merged with those of Silverwood Dairies, Limited and are included in the accompanying statement of consolidated earnings of Silverwood Dairies, Limited and its subsidiaries from their respective dates of acquisition.

It is not practicable to present a statement of earnings attributable to the assets acquired from Findlay Kemp Dairies Limited and its affiliate prior to the date of acquisition by Silverwood Dairies, Limited as these assets had previously been owned by several predecessor companies and no segregation of earnings is available between those related to assets acquired by Silverwood Dairies, Limited and those related to assets retained by the predecessor companies.

During the period ended March 31, 1960 Silverwood Dairies, Limited sold the assets and business of its branch at Guelph, Ontario. Accordingly, the accompanying related statements of consolidated and combined earnings referred to in 1 (a) and 1 (c) above include the operations of the Guelph branch only for the period prior to the date of sale.

3. (a) Depreciation charged against operations of Silverwood Dairies, Limited and its subsidiaries for the ten years ended March 31, 1966 has been calculated on the straight line method at rates designed to amortize the cost of assets over their expected useful lives.
 - (b) Depreciation charged against the operations of United Dairies Limited and its subsidiaries for the ten years ended on December 31, 1965 has been calculated on the diminishing balance basis which approximated the amounts allowable for income tax purposes (excluding accelerated depreciation). During the three month period ended March 31, 1966 depreciation charged against the operations of United Dairies Limited and its subsidiaries was calculated on the same basis as that used by Silverwood Dairies, Limited. As a result of this change combined net earnings of United Dairies Limited and its subsidiaries for the three months ended March 31, 1966 have been decreased by approximately \$7,000.
4. Prior to April 1, 1965 Silverwood Dairies, Limited followed the practice of attributing to the cost of route lists the excess of amounts paid on the purchase of businesses over the value of tangible assets acquired. The amounts so allocated to the cost of route lists were then amortized by charges to operations over periods of three to five years. As the status for income tax purposes of amounts charged to operations in respect of such amortization has been in doubt, provision for taxes on income was made in each year on the basis that these charges would not be allowed as a deduction from taxable income.

The status of route list amortization for tax purposes was resolved in June of 1965 by a decision of the Tax Appeal Board which held that such amortization is not deductible for tax purposes as amounts expended on the acquisition of route lists represent capital expenditures which have a continuing value. Following this judgment the directors of Silverwood Dairies, Limited reviewed the accounting policy previously followed by the company and concluded that the purchase costs which in the past have been attributed to route lists are basically similar to expenditures for goodwill and, accordingly, should not be subject to amortization. As a result of this decision, amortization totalling \$625,160 which had been charged to operations during the 9 years ended March 31, 1965 was reversed to consolidated earned surplus account and no route list amortization was charged against the operations of the year ended March 31, 1966.

The amortization previously charged against earnings for the years 1957 to 1965 and the amortization which would have been charged against 1966 earnings if the previous basis of accounting had been continued are set out in the following table:

1957—\$7,868; 1958—\$25,628; 1959—\$28,056; 1960—\$25,696; 1961—\$22,951; 1962—\$78,777; 1963—\$153,911; 1964—\$141,871; 1965—\$140,402; 1966—\$177,000.

None of these amounts have been deducted from consolidated earnings in the accompanying statements of consolidated and combined earnings referred to in 1 (a) and 1 (c) above.

5. Taxes on income shown on all of the accompanying statements of earnings have been computed at the rates applicable in the respective years. Taxes on income levied against Silverwood Dairies, Limited and its subsidiaries by the Government of Canada and the provinces of Alberta, Saskatchewan and Manitoba have been assessed to March 31, 1964 and taxes on income levied by the province of Ontario have been assessed to March 31, 1962. Taxes on income levied against United Dairies Limited and its subsidiaries by the Government of Canada and the provinces of Alberta and British Columbia have been assessed to December 31, 1964. Taxes on income shown in each case include the amount of taxes so assessed and the amount of taxes estimated for those periods in respect of which assessments have not yet been received.

Consolidated net earnings for the seven years ended March 31, 1966 as shown in the accompanying statement of consolidated earnings of Silverwood Dairies, Limited and its subsidiary companies have been reduced by charges for income taxes which are greater than the amount of such taxes which were actually payable in respect of the operations of those years by a total of \$1,821,504 as follows:

1960—\$287,000; 1961—\$257,000; 1962—\$257,000; 1963—\$180,000; 1964—\$150,000; 1965—\$570,000; 1966—\$120,504.

Combined net earnings for the two years ended December 31, 1965 as shown in the accompanying combined statement of earnings of United Dairies Limited and its subsidiary companies have similarly been reduced by charges for income taxes which are greater than the amount of income taxes actually payable in respect of those years by a total of \$28,454 (net) as follows:

1964—\$29,940; 1965—(\$1,486).

These differences result from claiming for tax purposes capital cost allowances (including accelerated allowances) in excess of depreciation recorded in the accounts of the companies and is applicable to those future periods in which amounts claimed for tax purposes may be less than the depreciation recorded in the accounts. Accordingly, the total difference of \$1,849,958 is shown in the consolidated balance sheet of the companies as "Accumulated tax reductions applicable to future years".

6. The accompanying statements of earnings exclude the following:

	Silverwood Dairies, Limited and its subsidiaries	United Dairies Limited and its subsidiaries	Combined Silverwood Dairies, Limited and United Dairies Limited
(a) Net profits on disposal of fixed assets and investments.....	\$254,787	\$19,096 (loss)	\$235,691
(b) Gain on redemption of bonds.....	106,092	—	106,092
(c) Goodwill written off.....	—	12,659 (loss)	12,659 (loss)

Auditors' Report

To the Directors,
SILVERWOOD DAIRIES, LIMITED.

We have examined the statement of consolidated earnings of Silverwood Dairies, Limited and its subsidiary companies for the ten years ended March 31, 1966, the statement of combined earnings of United Dairies Limited and its subsidiary companies for the ten years ended December 31, 1965 and for the three months ended March 31, 1966 and the statement of combined earnings of Silverwood Dairies, Limited and its subsidiary companies and of United Dairies Limited and its subsidiary companies for the ten years ended March 31, 1966. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the said statements, when read in conjunction with the notes thereto, present fairly the consolidated earnings of Silverwood Dairies, Limited and its subsidiary companies for the ten years ended March 31, 1966, the combined earnings of United Dairies Limited and its subsidiary companies for the ten years ended December 31, 1965 and for the three months ended March 31, 1966 and the combined earnings for all of the said companies for the ten years ended March 31, 1966 in accordance with generally accepted accounting principles consistently applied throughout the periods except for the change referred to in note 3 (b) with which we concur.

London, Canada.
June 10, 1966.

(Signed) CLARKSON, GORDON & Co.
Chartered Accountants.

SILVERWOOD DAIRIES, LIMITED
(Incorporated under the laws of Ontario)
and its subsidiary companies

Consolidated Balance Sheet and Pro Forma Consolidated Balance Sheet as at March 31, 1966

After giving effect in the pro forma consolidated balance sheet to:

1. The authorization, issue and sale to underwriters of \$10,000,000 principal amount of 6½% Sinking Fund Debentures Series A of Silverwood Dairies, Limited for \$9,700,000 and the payment of expenses estimated at \$50,000 in connection therewith.
2. The redemption for cash of the outstanding 4% General Mortgage Bonds at their par value of \$639,500.
3. The deposit of \$403,970 with the trustee for the debentureholders to provide for the redemption of the outstanding 5¼% Convertible Sinking Fund Debentures at their par value of \$398,000 together with a premium of 1½%.
4. The payment on June 30, 1966 of the balance due of \$1,064,816 under purchase agreement (see Note 2) and the borrowing of funds from bankers for this purpose.
5. The deposit of \$1,064,816 with the Trustee for the 6½% Sinking Fund Debentures Series A and application of this amount by the Trustee to repay the bank indebtedness referred to in 4 above.
6. The deposit of \$1,063,000 with the Trustee for the 6½% Sinking Fund Debentures Series A to finance estimated cost to complete new ice cream facilities (see Note 10).
7. The charging to consolidated earned surplus of \$46,736 representing the unamortized balance of discount and expenses incurred in connection with the bonds and debentures to be redeemed.
8. The addition to cash of \$6,478,714.

	Assets	Consolidated balance sheet	Pro forma consolidated balance sheet
CURRENT:			
Cash.....		\$ 1,361,813	\$ 7,840,527
Short term deposits with banks.....		205,515	205,515
Marketable securities—at cost (market value approximately \$994,115)....		1,117,135	1,117,135
Accounts receivable—			
Trade accounts (less allowance for doubtful accounts of \$192,810).....		3,836,309	3,836,309
Sundry.....		400,205	400,205
Inventories—at the lower of cost or net realizable value—			
Dairy products.....		1,768,998	1,768,998
Stores and supplies.....		1,932,557	1,932,557
Prepaid expenses.....		767,993	767,993
		<u>11,390,525</u>	<u>17,869,239</u>
FIXED—at cost:			
Land.....		1,722,299	1,722,299
Buildings.....		8,858,062	8,858,062
Machinery and equipment.....		12,456,377	12,456,377
Merchandising equipment.....		5,234,960	5,234,960
Delivery equipment.....		7,646,998	7,646,998
		<u>35,918,696</u>	<u>35,918,696</u>
Less accumulated depreciation.....		18,696,750	18,696,750
		<u>17,221,946</u>	<u>17,221,946</u>
Amount to be deposited with the Trustee for the 6½% Sinking Fund Debentures Series A to finance estimated cost to complete new ice cream facilities (see Note 10).....		—	1,063,000
		<u>17,221,946</u>	<u>18,284,946</u>
SUNDRY:			
Route lists and goodwill (including \$199,792 representing the excess of cost of shares of subsidiaries over tangible assets)—at cost (see Notes 3 and 4) ..		1,925,960	1,925,960
Deferred expenses and sundry assets.....		736,271	736,271
Discount and expenses in connection with bonds and debentures issued....		46,736	355,970
		<u>2,708,967</u>	<u>3,018,201</u>
		<u>\$31,321,438</u>	<u>\$39,172,386</u>

	Liabilities		
CURRENT:			
Due to bankers.....		\$ 898,674	\$ 898,674
Accounts payable—milk and cream producers.....		2,528,814	2,528,814
Other accounts payable and accrued charges.....		3,306,383	3,306,383
Balance due under purchase agreement (see Note 2).....		1,064,816	—
Income and other taxes payable.....		679,866	679,866
Dividends payable April 1, 1966.....		263,770	263,770
Principal instalments on mortgages, notes and deferred accounts payable due within one year.....		138,837	138,837
		<u>8,881,160</u>	<u>7,816,344</u>
MORTGAGES, NOTES AND DEFERRED ACCOUNTS PAYABLE (see Note 5).....		1,913,296	1,913,296
BONDS AND DEBENTURES PAYABLE (see Note 6).....		1,037,500	10,000,000
ACCUMULATED TAX REDUCTIONS APPLICABLE TO FUTURE YEARS (see Note 7) ..		1,849,958	1,849,958
MINORITY INTEREST IN SUBSIDIARY COMPANIES.....		318,941	318,941
CAPITAL:			
Class "A" shares without par value entitled to cumulative, preferential dividends of 60¢ per share per annum, payable quarterly, and after the Class "B" shares have received 60¢ per share in any one year to further participation rateably with Class "B" shares; entitled in liquidation to a priority of \$15 per share—			
Class "B" shares without par value—			
Authorized.....	Class "A"	Class "B"	
Issued (see Note 8).....	1,000,000 shs.	500,000 shs.	
	878,451 shs.	441,212 shs.	
CONSOLIDATED EARNED SURPLUS (see Note 9).....		7,044,679	7,044,679
		<u>10,275,904</u>	<u>10,229,168</u>
		<u>17,320,583</u>	<u>17,273,847</u>
		<u>\$31,321,438</u>	<u>\$39,172,386</u>

Approved on behalf of the Board:

(Signed) E. G. SILVERWOOD, Director

(Signed) J. H. GILLIES, Director

The accompanying "Notes to the Consolidated Balance Sheet and Pro Forma Consolidated Balance Sheet as at March 31, 1966" should be read together with these balance sheets.

SILVERWOOD DAIRIES, LIMITED
and its subsidiary companies

**Consolidated Statement of Earned Surplus
for the Year Ended March 31, 1966**

Balance at beginning of year.....	\$ 9,082,173
Add:	
Consolidated net profit for the year.....	1,559,984
Amortization of route list costs provided in prior years and now reversed (see Note 4).....	625,160
	<u>11,267,317</u>
Deduct:	
Dividends declared on Silverwood Dairies, Limited shares—	
Class "A"—77½¢ per share.....	649,473
Class "B"—77½¢ per share.....	341,940
	<u>991,413</u>
Balance at end of year.....	<u>\$10,275,904</u>

**Notes to the Consolidated Balance Sheet and Pro Forma Consolidated Balance Sheet
as at March 31, 1966**

1. ACQUISITION OF SUBSIDIARY COMPANIES

United Dairies Limited:

On January 5, 1966 Silverwood Dairies, Limited acquired 40,666 common shares, representing approximately 81% of the outstanding common shares, of United Dairies Limited which carries on dairy and related operations in the provinces of Alberta and British Columbia through nine subsidiary companies. These shares were purchased at \$50 per share, and the total purchase price of \$2,033,300 was satisfied by the issue of 40,666 Class "A" shares of Silverwood Dairies, Limited valued at \$15.75 per share plus a cash payment of \$1,392,810.

The company made offers on January 12, 1966 to purchase the remaining 9,334 outstanding common shares of United Dairies Limited at \$50 per share, the purchase price to be satisfied either by a cash payment of \$50 per share or a cash payment of \$34.25 per share plus one Class "A" share of Silverwood Dairies, Limited. As a result of these offers the company had acquired an additional 9,006 common shares of United Dairies Limited as at March 31, 1966 and as consideration had issued 4,446 Class "A" shares of Silverwood Dairies, Limited and had made cash payments totalling \$380,275.

Northwestern Creamery Limited (a subsidiary of United Dairies Limited):

On January 5, 1966 Central Creameries Limited, a wholly owned subsidiary of United Dairies Limited, acquired for \$363,000, 363 common shares of Northwestern Creamery Limited, representing the balance of the outstanding shares of this company not previously owned by Central Creameries Limited. Concurrently with this acquisition the vendors of the shares of Northwestern Creamery Limited subscribed for 7,260 Class "A" shares of Silverwood Dairies, Limited for cash at \$15.75 per share.

2. PURCHASE OF ASSETS AND BUSINESSES OF OTHER COMPANIES

Findlay Kemp Dairies Limited:

As of February 1, 1966 Silverwood Dairies, Limited purchased certain assets of Findlay Kemp Dairies Limited and of an affiliated company and took over the operation of the related businesses. The total purchase price of the assets and businesses so acquired has been estimated at \$1,864,816, of which \$800,000 was paid in cash at the date of the closing. The balance of \$1,064,816 which is payable on June 30, 1966 has been included with current liabilities on the accompanying consolidated balance sheet. The estimated total purchase price is subject, on or before June 30, 1966, to final determination of the value of certain inventories and other assets and, accordingly, may be subject to some variation.

Other Businesses:

Other assets and businesses were acquired during the year ended March 31, 1966 but the purchase prices were not substantial.

3. PRINCIPLES OF CONSOLIDATION

The accompanying consolidated balance sheet and pro forma consolidated balance sheet include the assets and liabilities of Silverwood Dairies, Limited and all its subsidiary companies together with appropriate provision for the interests of minority shareholders.

The assets of all subsidiaries are included at their book values as shown by the accounts of the respective companies with the exception of route lists and goodwill. Route lists and goodwill of \$1,925,960 as shown in the accompanying consolidated balance sheet and pro forma consolidated balance sheet as at March 31, 1966 include \$199,792 representing the excess of the cost of shares of United Dairies Limited and of its subsidiary companies over the book value of the underlying tangible assets of such companies at the date of acquisition.

4. ROUTE LISTS AND GOODWILL AT COST

As indicated in Note 4 to the statements of consolidated and combined earnings which appears on page 10 of this prospectus, Silverwood Dairies, Limited, during the year ended March 31, 1966, discontinued its previous policy of amortizing expenditures attributed to the cost of route lists. As a result of this change in policy, amortization totalling \$625,160 which had been charged to operations during the 9 years ended March 31, 1965 was reversed to consolidated earned surplus account during the year ended March 31, 1966. Amounts of amortization charged against operations prior to April 1, 1956 are not material and have not been reversed.

5. MORTGAGES, NOTES AND DEFERRED ACCOUNTS PAYABLE

Details of this amount are as follows:

(a) issued by Silverwood Dairies, Limited—

6% notes payable to banks (not subject to call before April 1, 1967)....	\$1,500,000
5½% mortgage, repayable in four annual instalments of \$15,400.....	61,600
	<u>1,561,600</u>

(b) issued by subsidiary companies—

First Mortgages payable—

5½% repayable in annual instalments of \$17,000, due October 31, 1971.....	\$ 102,000	
6½% repayable in monthly instalments of \$1,750, due December 31, 1971.....	120,750	
7% repayable in monthly instalments of blended principal and interest of \$140.....	13,661	
	<u>236,411</u>	

Equipment contracts payable (secured)—

Conditional sales contract repayable in monthly instalments commencing June 15, 1966, due September 15, 1966.....	15,300	
Conditional sales contract repayable in monthly instalments of \$126.65, due July 31, 1967.....	2,026	
Conditional sales contract repayable in monthly instalments of \$141, due August 31, 1968.....	4,176	
Conditional sales contract repayable in monthly instalments of \$70, due January 1, 1967.....	692	
	<u>22,194</u>	

Deferred accounts payable—

5% note repayable in annual instalments of \$3,242, due January 2, 1975	29,180	
5½% note, due January 2, 1967.....	10,000	
5½% note repayable in annual instalments of \$12,500, due January 4, 1976.....	125,000	
6% note repayable in monthly instalments of \$500, due September 2, 1967.....	8,764	
Sundry accounts payable in quarterly instalments of \$8,434, due December 31, 1968.....	58,984	
	<u>231,928</u>	

Total..... 490,533

Less amounts due within one year..... 2,052,133

Less amounts due within one year..... 138,837

\$1,913,296

6. BONDS AND DEBENTURES PAYABLE

Particulars of the bonds and debentures payable are as follows:

Outstanding and to be redeemed—

	Consolidated balance sheet		Pro Forma consolidated balance sheet
	Original authorization	Outstanding March 31, 1966	
4% general mortgage bonds due July 2, 1971 (sinking fund payment \$150,000 per annum).....	\$ 2,000,000	\$ 639,500	Nil
5¼% convertible sinking fund debentures due July 2, 1972 (sinking fund payment \$100,000 per annum).....	3,000,000	398,000	\$ 398,000
Add premium on redemption.....			5,970
		<u>398,000</u>	<u>403,970</u>
Less cash to be deposited with trustee.....			403,970
		<u>398,000</u>	<u>Nil</u>
		<u>\$ 1,037,500</u>	

Sinking fund payments of \$552,500 have been made in advance as at March 31, 1966.

To be issued as of July 5, 1966—

6⅝% Sinking Fund Debentures Series A to mature July 5, 1986 (sinking fund payments to retire \$400,000 per annum in each of the years 1968 to 1985 inclusive).....	\$10,000,000
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Debentures in addition to the presently proposed 6⅝% Sinking Fund Debentures Series A may only be issued subject to the restrictions contained in the trust indenture, which is to be entered into between the company and The Canada Trust Company as of June 15, 1966.

While \$403,970 will be deposited with the trustee to provide for the redemption of all of the outstanding 5¼% convertible sinking fund debentures and this transaction has been reflected in the accompanying pro forma consolidated balance sheet, the company anticipates that all, or nearly all, of these outstanding debentures will be converted into Class "A" shares of Silverwood Dairies, Limited in accordance with the conversion

privilege which is available until the business day before that set for redemption. If all of the outstanding debentures are so converted, approximately 33,166 additional Class "A" shares will be issued, the book value of capital stock will be increased by \$398,000 and cash as shown in the accompanying pro forma consolidated balance sheet will be increased by \$403,970.

7. ACCUMULATED TAX REDUCTIONS APPLICABLE TO FUTURE YEARS

Income taxes actually payable by the companies in respect of the fiscal years ended March 31, 1960 to 1966 inclusive have amounted to \$1,849,958 less than the total charged against consolidated earnings in respect of such taxes during the period. This difference results from the claiming of capital cost allowances for tax purposes in excess of depreciation recorded in the accounts of the companies.

This difference is applicable to those future periods in which amounts claimed for tax purposes may be less than the depreciation recorded in the accounts and, accordingly, is shown as "Accumulated Tax Reductions Applicable to Future Years" in the accompanying consolidated balance sheet and pro forma consolidated balance sheet.

8. CAPITAL STOCK

In addition to the capital stock issued at March 31, 1966, additional Class "A" shares were reserved as follows:

(a) For exchange for outstanding 5¼% convertible sinking fund debentures (see Note 6 and excluding shares to satisfy fractional interests).....	33,166 shares
(b) For issue under an offer to purchase shares of United Dairies Limited (see Note 1)...	328 shares
	33,494 shares

Between March 31, 1966 and June 10, 1966, 83 of the above reserved shares and 1 additional share to satisfy a fractional interest were issued on the conversion of the Convertible Sinking Fund Debentures and 12 were issued under an offer to purchase shares of United Dairies Limited. An additional 85 of the reserved shares were released as a result of the acquisition of 85 shares of United Dairies Limited for cash.

9. CONSOLIDATED EARNED SURPLUS

Silverwood Dairies, Limited has covenanted in the Trust Indenture securing its 5¼% convertible sinking fund debentures not to declare or pay any dividends (other than stock dividends) when consolidated net current assets (as therein defined) are less than, or would thereby be less than, \$1,500,000.

Other covenants which limit the payment of dividends but which are considered to be less restrictive in effect have been given by Silverwood Dairies, Limited under the Trust Deed securing the general mortgage bonds.

Silverwood Dairies, Limited will covenant in the Trust Indenture which will secure the 6⅝% Sinking Fund Debentures Series A not to declare any dividends other than in shares of the company and other than dividends at the rate of 60¢ per share per annum on its outstanding Class "A" shares and other than cumulative dividends on preference shares issued other than by way of stock dividends unless immediately after such declaration or payment:

- (i) the consolidated net current assets of the company and its subsidiaries (as therein defined) will be at least equal to the greater of 25% of consolidated funded obligations (as therein defined) or \$2,500,000, and
- (ii) the consolidated earned surplus of the company and its subsidiaries (as therein defined) will not be less than the lesser of \$7,500,000 or 75% of consolidated funded obligations (as therein defined).

10. FIXED ASSET COMMITMENTS

New ice-cream facilities at London, Ontario, are being constructed at a total estimated cost of \$1,500,000, including \$150,000 for land. The land was acquired before March 31, 1966 and \$287,000 had been expended on construction by that date. These amounts are reflected in the accompanying consolidated balance sheet and pro forma consolidated balance sheet but no liability has been included in the consolidated balance sheet for the unexpended balance of \$1,063,000. An amount sufficient to provide for this balance is to be deposited with the Trustee for the 6⅝% Sinking Fund Debentures Series A and this deposit has been reflected in the pro forma consolidated balance sheet.

Auditors' Report

To the Directors,
SILVERWOOD DAIRIES, LIMITED.

We have examined the consolidated balance sheet and pro forma consolidated balance sheet of Silverwood Dairies, Limited and its subsidiary companies as at March 31, 1966 and the consolidated statement of earned surplus for the year ended March 31, 1966. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion:

- (a) the accompanying consolidated balance sheet presents fairly the consolidated financial position of the companies as at March 31, 1966,
- (b) the accompanying pro forma consolidated balance sheet presents fairly the consolidated financial position of the companies as at March 31, 1966 after giving effect as at that date to the changes set forth in the heading thereto, and
- (c) the accompanying consolidated statement of earned surplus presents fairly the changes in earned surplus for the year ended March 31, 1966,

all in accordance with generally accepted accounting principles applied on a consistent basis except for the change referred to in Note 4 with which we concur.

London, Canada.
June 10, 1966.

(Signed) CLARKSON, GORDON & Co.
Chartered Accountants.

STATUTORY INFORMATION

1. The full name of the Company is Silverwood Dairies, Limited (hereinafter called the "Company") and the address of the head office of the Company is 75 Bathurst Street, London, Ontario.
2. The Company was incorporated under the laws of Ontario by letters patent dated June 14, 1928. Supplementary Letters Patent were issued to the Company dated July 7, 1928, May 29, 1936, June 20, 1946, March 3, 1947, July 5, 1949 and June 11, 1952.
3. The general nature of the business transacted by the Company is the manufacture, processing and distribution, both wholesale and retail, of dairy products.
4. The name in full, present occupation and home address in full of each of the directors and officers of the Company are as follows:

Directors

JOSEPH ASHFIELD CAULDER.....	Retired Dairy Executive.....	4000 Yonge Street, Toronto, Ontario.
TREVOR LLOYD DAVIES.....	Dairy Executive.....	2645 Bloor Street West, Toronto, Ontario.
JOHN HAROLD GILLIES.....	Dairy Executive.....	R.R. No. 2, London, Ontario.
THOMAS LESLIE ROBB GRAY.....	Dairy Executive.....	717 Hillcrest Drive, London, Ontario.
RICHARD GREEN IVEY.....	Queen's Counsel.....	R.R. No. 2, London, Ontario.
NORMAN ERNEST KAYE.....	Dairy Executive.....	101 Rollingwood Circle, London, Ontario.
ALBERT EDWARD LAWRENCE.....	Executive.....	1201 Richmond Street, London, Ontario.
MAXWELL REID MCCREA.....	Dairy Executive.....	270 Sarnia Road, London, Ontario.
ERIC BECHER NELLES.....	Retired Dairy Executive.....	40 Mayfair Drive, London, Ontario.
EDWARD ARTHUR PAULGER.....	Executive.....	38 Glen Stewart Crescent, Toronto, Ontario.
ROBERT GILCHRIST PEAT.....	Dairy Executive.....	R.R. No. 1, Thedford, Ontario.
EDWARD GORDON SILVERWOOD.....	Dairy Executive.....	137 Highland Road, London, Ontario.
HERBERT THOMAS SPETTIGUE.....	Dairy Executive.....	141 Iroquois Avenue, London, Ontario.
JOHN ALLYN TAYLOR.....	Executive.....	1117 The Parkway, London, Ontario.

Officers

EDWARD GORDON SILVERWOOD.....	Chairman of the Board.....	137 Highland Road, London, Ontario.
JOHN HAROLD GILLIES.....	President and Chief Executive Officer.....	R.R. No. 2, London, Ontario.
THOMAS LESLIE ROBB GRAY.....	Secretary-Treasurer.....	717 Hillcrest Drive, London, Ontario.
MAXWELL REID MCCREA.....	Executive Vice-President.....	270 Sarnia Road, London, Ontario.
NORMAN ERNEST KAYE.....	Managing Director.....	101 Rollingwood Circle, London, Ontario.

5. The auditors of the Company are Messrs. Clarkson, Gordon & Co., Chartered Accountants, 291 Dundas Street, London, Ontario.
6. The transfer agent and registrar for the Class "A" shares and for the Class "B" shares in the capital of the Company is The Canada Trust Company, 33 Adelaide Street West, Toronto, Ontario. The Canada Trust Company is the Trustee for the 4% General Mortgage Bonds (hereinafter sometimes called the "General Mortgage Bonds") and registers upon which General Mortgage Bonds may be registered as to principal and upon which transfers of General Mortgage Bonds so registered are to be made are kept by The Canada Trust Company at its offices at 220 Dundas Street, London, Ontario. The Canada Trust Company is the Trustee for

the 5¼% Convertible Sinking Fund Debentures (hereinafter sometimes called the "Convertible Debentures") and registers upon which Convertible Debentures may be registered as to principal and upon which fully registered Convertible Debentures shall be registered as to principal and interest and upon which transfers of Convertible Debentures so registered are to be made are kept by The Canada Trust Company at its offices at 33 Adelaide Street West, Toronto, Ontario, 631 Dorchester Boulevard West, Montreal, Quebec, and Portage at Fort, Winnipeg, Manitoba. The Canada Trust Company will be the Trustee for the 6½% Sinking Fund Debentures Series A (herein sometimes called the "Series A Debentures") hereinafter mentioned and registers upon which Series A Debentures may be registered as to principal and upon which fully registered Series A Debentures shall be registered as to principal and interest and upon which transfers of Series A Debentures so registered are to be made will be kept by The Canada Trust Company at its offices at 33 Adelaide Street West, Toronto, Ontario, 631 Dorchester Boulevard West, Montreal, Quebec, Portage at Fort, Winnipeg, Manitoba, and West Pender at Hornby, Vancouver, British Columbia.

7. The authorized share capital of the Company consists of 1,000,000 Class "A" shares without par value and 500,000 Class "B" shares without par value of which as at June 10, 1966, 878,547 of the said Class "A" shares and 441,212 of the said Class "B" shares had been issued and were outstanding as fully paid; additional Class "A" shares may be issued as a result of conversion of Convertible Debentures into Class "A" shares as set forth in paragraph 11 hereof and pursuant to one of the offers referred to in paragraph 12 hereof.

8. No shares are offered by this prospectus.

9. There are no bonds or debentures outstanding or proposed to be issued, nor are there any other securities issued or proposed to be issued, which if issued would rank ahead of or *pari passu* with the Series A Debentures offered by this prospectus except as follows:

- (i) \$639,500 principal amount as at June 10, 1966 of 4% General Mortgage Bonds of the Company issued under a Trust Deed dated as of July 2, 1946 between the Company and The London and Western Trusts Company Limited, as Trustee (to which The Canada Trust Company became successor trustee), and indentures supplemental thereto; it is the present intention of the Company to call all the outstanding General Mortgage Bonds for redemption on or about July 25, 1966 at 100 per cent (there being no premium) of the principal amount thereof plus accrued interest to such redemption date;
- (ii) \$397,000 principal amount as at June 10, 1966 of 5¼% Convertible Sinking Fund Debentures issued under a Trust Indenture dated as of July 2, 1952 between the Company and The Canada Trust Company, as Trustee; the Convertible Debentures are convertible into Class "A" shares of the Company up to the close of business on July 2, 1967 at \$12 per share (subject to certain adjustments); the Company has called all the outstanding Convertible Debentures for redemption on July 5, 1966 at the applicable redemption price of 101½ per cent of the principal amount thereof plus accrued interest to such redemption date; the holders of the Convertible Debentures have the right to exercise the aforesaid right of conversion up to the close of business on July 4, 1966, being the business day immediately prior to the redemption date; and
- (iii) a first mortgage dated September 15, 1965 on eighteen acres of the twenty-eight acre site upon which the Company's new ice cream plant is being erected near the Macdonald-Cartier Freeway and Wellington Road in London, Ontario, which mortgage provides for payments on account of principal of \$15,400 together with interest at 5½% per annum on January 3 in each of the years 1966 to 1970 inclusive, the first of such payments having been made on January 3, 1966 so that \$61,600 principal amount now remains unpaid.

10. Except as hereinafter stated, no substantial indebtedness not shown in the pro forma consolidated balance sheet of the Company and its subsidiary companies as at March 31, 1966 forming part of this prospectus is intended to be created or assumed by the Company or its subsidiaries. The Company may incur indebtedness in the approximate amount of \$1,064,816 with its bankers to provide funds for the payment due on June 30, 1966 to Findlay Kemp Dairies Limited and Uplands Dairy Shops Limited as mentioned in paragraph 21-22 hereof and in the approximate amount of \$414,588 to provide funds for deposit on June 30, 1966 with the Trustee for the holders of the Convertible Debentures for the redemption thereof on July 5, 1966 and the payment of interest due thereon on July 2, 1966 and interest accrued thereon to July 5, 1966, the date of redemption.

11. As mentioned in paragraph 9 hereof, the Convertible Debentures are convertible into Class "A" shares in the capital of the Company and 33,083 Class "A" shares of the Company were reserved for this purpose as at June 10, 1966. Reference is made to paragraph 12 hereof.

12. The number of securities offered by this prospectus, their correct descriptive title, the issue price to the public and the terms thereof are as stated on the front page of this prospectus to which reference is hereby made. Certain particulars relating to the Series A Debentures and the Trust Indenture under which they are to be issued are set forth under the headings "Certain Provisions of the Trust Indenture" and "Sinking Fund" on pages 4 to 8 of this prospectus to which reference is made.

Pursuant to an offer dated December 17, 1965 from the Company to Grant Morton Carlyle and Joyce Kathleen Carlyle and accepted by them, the Company issued 40,666 fully paid Class "A" shares (\$640,489.50 being deemed to have been paid up thereon) and paid \$1,392,810.50 in cash for 40,666 common shares without nominal or par value (hereinafter called "United common shares") in the capital stock of United Dairies Limited (hereinafter called "United").

A maximum of 9,334 Class "A" shares in the capital of the Company was offered by the Company in connection with an offer dated January 12, 1966 (the time for acceptance of which is now extended to the close of business on June 30, 1966) of the Company to the holders of outstanding United common shares resident in the Provinces of Alberta and British Columbia, Canada, and not elsewhere to purchase United common shares on the basis of one Class "A" share of the Company and \$34.25 in cash for each United common share or \$50 in cash for each United common share, of which up to June 10, 1966, 4,458 of the said Class "A" shares so offered were issued as fully paid (\$70,213.50 being deemed to have been paid up thereon) in payment to the extent aforesaid for 4,458 United common shares. Moneys to complete such purchase are to be supplied from the general funds of the Company. There were more than twenty-five shareholders

from whom the Company purchased United common shares pursuant to this offer; none of the holders of United common shares individually held in his or her name more than 10% of such shares except Harry Hayes whose address is 8944 Elbow Drive, Calgary, Alberta, with respect to 1,215 United Common Shares and Martha Valborg Morkeberg whose address is Markerville, Alberta, with respect to 1,508 United common shares.

By a further offer of the Company dated January 12, 1966 (the time for acceptance of which is now extended to the close of business on June 30, 1966) to the holders of outstanding United common shares resident outside the Provinces of Alberta and British Columbia, Canada, to purchase United common shares on the basis of \$50 in cash for each United common share, the Company acquired up to June 10, 1966, 228 United common shares. Moneys to complete such purchase are to be supplied from the general funds of the Company. There were more than twenty-five shareholders from whom the Company purchased United common shares pursuant to this offer; none of the holders of United common shares individually held in his or her name more than 10% of such shares except A. W. Howard whose address is 1380 Caledonia Road, Montreal, Quebec, with respect to 50 United common shares.

Pursuant to an offer dated December 18, 1965 of the Company to Laura S. Norton, Frank H. A. Norton and Ruth Marie Norton, Executors of the Estate of Francis H. A. Norton, and Laura S. Norton in her personal capacity (all of such persons being hereinafter called the "Norton vendors") and accepted by them the Company offered subject to certain terms and conditions to cause Central Creameries Limited which was and is a wholly owned subsidiary of United to purchase 363 outstanding common shares in the capital stock of Northwestern Creamery Limited (being all the outstanding shares of that company not owned by Central Creameries Limited) for \$363,000 cash; pursuant to one of the terms and conditions of such offer the Norton vendors subscribed for and the Company issued to them 7,260 Class "A" shares in the capital of the Company at a total subscription of \$114,345 which was paid in cash at the time of the issuance thereof.

Since June 10, 1964 up to and including June 10, 1966, 10,179 Class "A" shares of the Company had been issued on the conversion of \$122,000 principal amount of Convertible Debentures plus payments aggregating \$148 in cash in satisfaction of fractional interests arising on such conversion. Such Class "A" shares are outstanding as fully paid and non-assessable for an aggregate consideration fixed at \$122,148. If all the remaining outstanding Convertible Debentures are converted prior to the redemption thereof referred to in paragraph 9 hereof a further 33,083 Class "A" shares of the Company would be issued not taking into account additional Class "A" shares issued to satisfy fractional interests.

Other than as aforesaid and the mortgage referred to in paragraph 9 hereof no securities have been issued by the Company within the two years preceding the date hereof. No commission with respect to any such issue of securities has been paid or is payable.

13. The estimated net proceeds to be derived from the Series A Debentures proposed to be issued on the basis of the same being fully taken up and paid for are \$9,700,000 less legal and auditing fees and other expenses in connection with the issue of the said securities, which fees and expenses are estimated at \$50,000.

14. The net proceeds to be derived by the Company from the sale of the Series A Debentures proposed to be issued will be used (either directly or by the reduction of indebtedness) to reimburse the Company for expenditures to be made for the payment of the balance of the purchase price estimated at \$1,064,816 of the undertaking, property and assets (subject to certain exceptions) of Findlay Kemp Dairies Limited and Uplands Dairy Shops Limited, to reimburse the Company for moneys expended to the extent required for the redemption on July 5, 1966 of the Company's Convertible Debentures (of which \$398,000 principal amount were outstanding at March 31, 1966 so that \$414,588 would be required for the redemption on July 5, 1966 of that principal amount plus premium and accrued interest) which are not converted into Class "A" shares of the Company prior to such redemption date, to provide funds for the redemption in July 1966 of the Company's presently outstanding 4% General Mortgage Bonds (of which \$639,500 principal amount were outstanding at March 31, 1966), to finance the cost to complete (estimated at March 31, 1966 to be \$1,063,000) the new ice cream facilities at London, Ontario referred to under the heading "Plants and Equipment" on page 2 of this prospectus and to replenish the working capital of the Company and its subsidiaries and to augment the working capital of the Company and its subsidiaries particularly having regard to their expanded operations. Reference is made to paragraph 10 hereof.

\$3,181,904 of the aforesaid net proceeds will be paid to The Canada Trust Company, as Trustee under the Trust Indenture referred to in paragraph 12 hereof, to be applied for the first four purposes above set forth and the balance of such net proceeds, together with any amounts not required for such purposes, to be added to the working capital of the Company as aforesaid. Moneys held by such Trustee may be invested by it from time to time as the Company may direct in securities in which Trustees are, by the laws of the Province of Ontario, authorized to invest.

15. No shares are offered by this prospectus.

16. By agreement dated June 10, 1966, McLeod, Young, Weir & Company Limited and R. A. Daly & Company Limited agreed, severally but not jointly, to purchase, as principals, from the Company, subject to certain terms and conditions, the \$10,000,000 principal amount of Series A Debentures at an aggregate price of \$9,700,000, plus accrued interest, if any, payable in cash against delivery thereof.

17. The by-laws of the Company contain the following provision as to remuneration of directors:

"The Directors shall have power to fix by resolution their remuneration either as Directors or Officers of the Company, and also the salaries and remuneration to be paid to all salaried officers of the Company and no further By-law or confirmation of the Shareholders other than the confirmation of this General By-law shall be necessary to provide for such remuneration or payment; provided that such remuneration or salaries and the aggregate of all such remunerations, payments, salaries, bonuses and fees is not out of proportion to the size and earning power of the Company and is not greater than is usually paid in businesses of a similar nature and approximately the same size."

18. The aggregate remuneration paid by the Company during its last completed financial year ended March 31, 1966 to directors of the Company as such was \$6,500 and by the Company to officers thereof who individually received remuneration in excess of \$10,000 per annum was \$126,666. The aggregate remuneration estimated to be paid or payable by the Company during the current financial year to directors of the Company as such

is \$7,000 and by the Company to officers thereof who individually may be entitled to receive remuneration in excess of \$10,000 per annum is \$159,000.

19. No amount has been paid by the Company within the two preceding years prior to the date hereof or is now payable as a commission for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares in or obligations of the Company. Reference however is made to paragraph 16 hereof.

20. The Company has been carrying on business for more than one year.

21-22. By agreement made January 7, 1966 between Findlay Kemp Dairies Limited and Uplands Dairy Shops Limited (whose respective addresses are 1475 Davenport Road and 744 Mount Pleasant Road, Toronto, Ontario), as vendors, and the Company, as purchaser, the Company purchased and acquired by good and marketable title (subject to certain deficiencies which are not considered to be detrimental to the use thereof) all the undertaking, property and assets (subject to certain exceptions) of the said vendors; the total purchase price payable to Findlay Kemp Dairies Limited is estimated at \$1,504,101 and the total purchase price payable to Uplands Dairy Shops Limited is estimated at \$360,715 of which total estimated purchase prices, \$800,000 was paid with the balance of \$1,064,816 subject to certain adjustments payable on June 30, 1966, of which the sum of \$1 was paid to each of the said vendors for goodwill.

The address of Grant Morton Carlyle and Joyce Kathleen Carlyle referred to in paragraph 12 hereof is 1135 Sifton Boulevard, Calgary, Alberta, and the number of Class "A" shares of the Company issued to them pursuant to the offer dated December 17, 1965 to them referred to in the said paragraph 12 was 8,750 Class "A" shares and 6,550 Class "A" shares respectively. In addition 25,366 Class "A" shares were issued pursuant to the said offer to Grant Morton Carlyle, Stella W. A. Carlyle and Crown Trust Company, surviving executors of Thomas Morton Carlyle, the address of such executors being c/o Crown Trust Company, 227 8th Avenue West, Calgary, Alberta.

The Company has acquired good title to all United common shares acquired pursuant to the offers referred to in paragraph 12.

By offer dated February 1966 from the Company to Lloyd F. Drummond, 38 Albert Street, Stratford, Ontario, and accepted by him the Company purchased certain lands and premises situate on the north side of Highway Numbers 7, 8 and 19 in the City of Stratford for the sum of \$22,500 cash. By offer dated March 21, 1966 from the Company to Della Mary Smith, R.R. No. 4, Stratford, Ontario, and accepted by her the Company purchased certain lands and premises situate on the north side of Highway Numbers 7, 8 and 19 in the City of Stratford for the sum of \$2,500 cash; the Company acquired a good and marketable title to each of the properties purchased as aforesaid. To the extent that the net proceeds from the sale of the Series A Debentures offered hereby are added to the working capital of the Company such proceeds may be used to reimburse the Company for expenditures made to acquire such lands and premises.

All transactions by the Company in connection with the modernization programme referred to in paragraph 14 hereof have been entered into on the general credit of the Company.

23. Within the two years preceding June 10, 1966, the Company issued as fully paid up otherwise than in cash 55,303 Class "A" shares of the Company as referred to in paragraph 12 and paragraph 21-22 hereof for the respective considerations stated in such paragraphs.

24. The particulars of the security to be created for the Series A Debentures being offered by this prospectus and the property to be comprised in such security are set out under the headings "Certain Provisions of the Trust Indenture" and "Sinking Fund" on pages 4 to 8 of this prospectus to which reference is hereby made.

25. Exclusive of services rendered or to be rendered in the ordinary course of business, and legal, audit and other services in connection with the issue of the securities offered by this prospectus, no services have been rendered or are to be rendered to the Company which are to be paid for by the Company wholly or partly out of the proceeds of the securities hereby offered. No services have been rendered or are to be rendered to the Company which have been within the two years preceding the date hereof or are to be paid for by securities of the Company.

26. No amount has been paid within the two years preceding the date hereof or is intended to be paid to any promoter of the Company as such.

27. The dates of, the parties to, and the general nature of every material contract entered into by the Company within the two years preceding the date hereof other than contracts entered into in the ordinary course of business carried on by the Company and other than the offers referred to in paragraph 12 hereof and the agreements referred to in paragraphs 16 and 21-22 are as follows:

(i) Agreement dated December 16, 1965, between the Company and McKay-Cocker Construction Limited with respect to the new ice cream plant referred to in paragraph 9 hereof;

(ii) Agreement dated October 29, 1965 between the Company and Canadian Ice Machine Company Limited for the supply and installation of refrigeration equipment in the new ice cream plant; and

(iii) The Company has also entered into other agreements for the supply of other equipment and machinery for the new ice cream plant.

Copies of the documents referred to above in this paragraph 27 and of the Trust Indenture under which the Series A Debentures will be issued when such Trust Indenture is entered into may be inspected at the head office of the Company, 75 Bathurst Street, London, Ontario, during ordinary business hours while the securities offered hereby are in the course of primary distribution to the public and for a period of thirty days thereafter.

The Company and/or its subsidiaries have entered into agreements for the acquisition of milk and ice cream routes and for equipment and machinery in connection with their respective businesses all of which agreements are considered to have been entered into in the ordinary course of business.

- 28. The Company has been carrying on business for more than one year. The Company does not propose to acquire any property in which any director is interested.
- 29. The Company has been carrying on business for more than three years. The Company has not acquired nor does it propose to acquire, directly or indirectly, by the purchase of shares or otherwise, a business which has been carried on for less than three years.
- 30. No shares are offered by this prospectus.
- 31. The signatories hereto are not aware of any securities of the Company being held in escrow.
- 32. No shares are offered by this prospectus.
- 33. There are no other material facts not disclosed in the foregoing or on pages 2 to 8 of this prospectus.

The foregoing constitutes full, true and plain disclosure of all material facts in respect of the offering of securities referred to above as required by the Securities Act, 1962 (British Columbia), by The Securities Act, 1955 (Alberta), by Section 43 of The Securities Act (Saskatchewan), by Section 39 of The Securities Act (Ontario), by the Securities Act (Quebec) and by Section 13 of The Securities Act (New Brunswick), and there is no further material information applicable other than in the financial statements or reports where required or exigible.

DATED June 15, 1966.

Directors

(Signed) T. L. DAVIES	(Signed) J. A. CAULDER	} by their agent (Signed) L. R. GRAY
(Signed) J. H. GILLIES	(Signed) R. G. IVEY	
(Signed) L. R. GRAY	(Signed) M. R. McCREA	
(Signed) N. E. KAYE	(Signed) E. B. NELLES	
(Signed) A. E. LAWRENCE	(Signed) R. G. PEAT	
(Signed) E. A. PAULGER	(Signed) J. A. TAYLOR	
(Signed) E. G. SILVERWOOD		
(Signed) H. T. SPETTIGUE		

Underwriters

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts in respect of the offering of securities referred to above as required by the Securities Act, 1962 (British Columbia), by The Securities Act, 1955 (Alberta), by Section 43 of The Securities Act (Saskatchewan), by Section 39 of The Securities Act (Ontario), by the Securities Act (Quebec) and by Section 13 of The Securities Act (New Brunswick) and there is no further material information applicable other than in the financial statements or reports where required or exigible. In respect of matters which are not within our knowledge we have relied upon the accuracy and adequacy of the foregoing.

McLEOD, YOUNG, WEIR & COMPANY LIMITED	R. A. DALY & COMPANY LIMITED
by (Signed) L. E. BARLOW	by (Signed) R. G. SPENCE

The following includes the names of every person having an interest either directly or indirectly to the extent of not less than 5% in the capital of McLeod, Young, Weir & Company Limited: J. S. Dinnick, F. O. Evans, C. P. Keeley, G. C. MacDonald, R. W. Wadds, J. R. Hilborn and R. J. G. Reiner.

The following includes the names of every person having an interest either directly or indirectly to the extent of not less than 5% in the capital of R. A. Daly & Company Limited: R. A. Daly, Jr., W. L. Goldsmith and D. C. Bainbridge.